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RUEHC/SECSTATE WASHDC PRIORITY 9881  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBJ/AMEMBASSY BEIJING 4893  
RUEHUL/AMEMBASSY SEOUL 3663  
RUEHKO/AMEMBASSY TOKYO 9820  
RUEHCHI/AMCONSUL CHIANG MAI 4146

UNCLAS SECTION 01 OF 05 BANGKOK 005150

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STATE FOR EAP AND EB  
STATE PASS TO USTR  
TREASURY FOR OASIA  
COMMERCE FOR EAP/MAC/OKSA  
SINGAPORE FOR FINATT BAKER

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [PGOV](#) [TH](#)  
SUBJECT: DOWN AND OUT IN THAKSIN'S HEARTLAND - TOURING THE  
NORTHEAST ECONOMY

REF: BANGKOK 4943

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1. (SBU) Summary: A tour of the economically depressed Northeastern region revealed strong sentiment for populist policies of former PM Thaksin and his disbanded Thai Rak Thai (TRT) party amid hopes that the coming December elections will boost economic growth. Economic conditions, reflecting those of the rest of the country, showed poor domestic demand balanced by strong growth in select export sectors. Business owners said they were likely to remain loyal to former TRT members in the successor People's Power Party (PPP) because "they delivered on their promises." However, ex-TRT members in other independent parties may siphon away PPP support, especially in Khorat province. The coming Southeast Asia (SEA) Games in December in Khorat will give the region a short-term spending boost, but a new government will find that external economic conditions may make it difficult to replicate TRT populism, at least in the short term. End Summary.

2 (SBU) A visit to economic centers in Thailand's Isaan (Northeast) region revealed a depressed economy that is fueling dissatisfaction with the current government as voters yearn for the populist policies of the disbanded Thai Rak Thai party (TRT). Econoff and FSN traveled to Khon Kaen and Nakhon Ratchasima ("Khorat" for short) provinces from August 29 to September 1, stopping at village enterprises in between, to gauge business sentiment in the wake of the August 19 constitutional referendum. While approved nationwide, the referendum's performance in the Northeast, with 17 of 19 provinces voting against, demonstrates a continued electoral schism that TRT's varied successor parties hope to exploit in the planned December 23 elections. The Northeast will elect 136 of the 400 constituency seats of the next parliament. All but 10 of those seats were won by TRT in the last elections of 2005. Throughout the region, officials and business owners said there is widespread apathy and little substantive discussion about constitutional reform, but that grassroots voters in some constituencies reported being given 200 baht (USD 6) by political volunteers to vote "No" to the August 19 referendum.

13. (SBU) In a meeting at the Khon Kaen Chamber of Commerce, the Chamber president and two local business leaders explained that TRT was the first political party to draft a coherent economic platform specifically targeting Northeast voters. While other parties had made campaign promises before, voters perceived TRT as having done its research and, more importantly, following through with real programs. The Chamber listed TRT's achievements, in rank order, as:

- 1) The 30 baht health care program, which expanded health treatment for the poor;
- 2) The "war on drugs" to reduce the spread of the "yaa baa" (methamphetamine) trade;
- 3) Village Fund microcredit programs, providing easy access to credit, as well as seminars on financial management;
- 4) The "One Tambon, One Product" (OTOP) scheme to encourage nationwide marketing of local products ("tambon" being a subdistrict);
- 5) Creation of a legal lottery, with proceeds used for rural student scholarships;
- 6) Periodic "taxi driver consultations" in Bangkok.

The latter refers to town-hall style meetings organized by TRT, initially held on a monthly basis, in which former PM Thaksin himself addressed gatherings of Bangkok's Northeast-origin taxi drivers to gauge political sentiment in their home provinces. Low-interest credit programs also made it easier for drivers to purchase their own taxis, with earnings often remitted to drivers' families in the Northeast.

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14. (SBU) The Chamber reps said these programs, taken together, boosted Northeast residents' self-esteem in addition to income: "It was as if a wide range of worries had been lifted - villagers no longer feared going to the hospital, lottery players no longer feared the police, and the drug war made people feel safer," notwithstanding concerns about extrajudicial killings. Today, however, voters are blaming stagnant economic conditions on the September 2006 military coup and resultant political uncertainty. "There is no government stimulus, and people are listening to statements about the King's Sufficiency Economy theory, which they think means tightening budgets or, if you are a creditor, slowing down loans but collecting debts." One Chamber rep said, surprisingly, that a reduction in corruption, evident since the coup, was also having a negative impact. "Bribers aren't offering money, because they don't know who's going to be in power next, and officials aren't taking bribes because they fear getting caught," he said. The result: A slowdown in government-funded programs, including infrastructure projects, with a more deliberate and lengthy procurement approval process.

15. (SBU) In a subsequent meeting with the Bank of Thailand's (BOT) Northeast office staff, the regional director confirmed that local voters view the coming elections as a chance to "pay back" former TRT politicians who provided benefits that were perceived as "real and touchable." He said the regional economy has slowed down, in line with national conditions, due to slack domestic consumption and investment. On the brighter side, agricultural revenues remain strong due to healthy world crop prices, and border trade with neighboring Laos grew 13 percent in the first half of 2007. Electronic goods exports are also strong (particularly hard disk drives), while real estate and housing market was slumping. The BOT's staff forecast real Gross Regional Product to be 3.5 to 4.0 percent for the year, not far off from projected national GDP figures of 4.0 to 4.3 percent.

16. (SBU) The BOT said campaign spending on the elections is widely expected to provide a short-term boost to the Northeast economy, with medium term prospects dependent on how the election results are received. About 1.5 billion baht (over USD 40 million) is expected to be spent on campaign activities from late September through December 23, which would equal or exceed the RTG's regional budget for the same period. Businesses benefiting from this largesse include printing shops (for campaign posters), automobile and sound system rental companies, food and beverage services, photo shops and entertainment venues. Voters will also benefit from varying amounts of direct cash handouts, depending on the government's ability or willingness to clamp down on the practice. The BOT director noted that the BOT and commercial banks are finding it more difficult to trace funds devoted to vote-buying. "Politicians are smarter these days," he said. "They bring the money in suitcases from Bangkok instead of using local bank accounts."

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BUSINESS-ORIENTED KHORAT - POSSIBLE WEAK POINT FOR PPP  
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17. (SBU) Besides the elections, residents of Khorat anticipate a sizeable fiscal boost from hosting the Southeast Asian (SEA) Games for the first time on December 6-11. The SEA Games, a biannual competition between 11 countries, is normally held in capital cities such as Kuala Lumpur, Jakarta, Hanoi and Bangkok. Khorat will be the first non-capital city to host the Games since 1995, when it was held in Chiang Mai, Thailand (although Ho Chi Minh City co-hosted the Vietnam-based games with Hanoi in 2003). The city of Khorat will this month complete a new 20,000 seat stadium, the King's 80th Anniversary Sports Complex, at a cost of USD 77 million. Khorat expects to receive nearly 100,000 visitors during the weeklong event, which kicks off one day after the King of Thailand's 80th birthday celebrations.

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18. (SBU) At a meeting convened by the Khorat Chamber of Commerce, over 20 business owners gave a mixed picture of the province's economic performance that was largely dependent on sector. The most populous province in the Northeast, and second to Khon Kaen in economic activity, Khorat hosts three large industrial estates that have contributed to Thailand's strong export growth in electronics, agrobusiness, metalwork and services. Eleven U.S. companies have invested over USD 250 million in the province, employing over 13,000 people. Seagate (hard disk drives) and Cargill (agrobusiness) lead with a combined USD 25 million of investment, with Seagate seeking approval on a major expansion, according to the Board of Investment (BOI) officials at the meeting. Other export-oriented industries are doing well, with an Australian two-seat helicopter manufacturing plant expected to begin operations in 2008.

19. (SBU) Farm and agrobusiness owners, however, complained about the impact of the appreciating Thai baht on their profit margins, despite relatively healthy crop prices overseas. The lower foreign market earnings, when converted to baht, are reducing liquidity throughout the region, while political uncertainty is depressing consumption and the housing market. Business owners said they are less concerned about the outcome of the December elections than other provinces. Khorat's stronger industrial base made it less dependent on populist economic policies at the grassroots level, and more interested in investor relations.

110. (SBU) With Khorat being one of two Northeast provinces voting in favor of the new constitution (the other being Buriram), Chamber reps speculated that it would not be as loyal to TRT allies as the rest of the Northeast. One

businessman said, "This province will go wherever Suwat goes." He was referring to Suwat Liptapanlop, the former Deputy Prime Minister in Thaksin's government who has recently disassociated himself from TRT, and its successor People's Power Party (PPP), by resurrecting his old Chart Pattana party. Now allied with other independent parties, Suwat's Chart Pattana is expected to oppose PPP efforts to form the next government. In a demonstration of potential PPP problems in Khorat, its recently-named leader Samak Sundaravej was jeered at a September 25 rally by thousands of spectators who blocked his procession from passing the city's principal landmark, the Thao Suranaree heroine statue.

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SMALL RURAL ENTERPRISES: "WORST YEAR IN DECADES"?  
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¶11. (SBU) Small villages between Khorat and Khon Kaen, however, showed that the worse the conditions, the greater the residents' support for TRT. A visit to the "Thai Silk Road," a tourist-friendly silk product village outside of Khon Kaen, revealed row upon row of silk shop goods greeting scarce customers. The owner of Mae Boonmee Shop, the largest producer in the village, said 2007 was shaping up to be the worst year in her over 30 years of business. Tourism and wholesale orders from the North, in Chiang Mai, and from Bangkok had completely dried up, she said. "There's no money in circulation, and orders have been put on hold until after the elections. Everybody is just waiting for the elections because of the political uncertainty." Voters, she added, would remember the good times under TRT and Thaksin, but would reserve their votes for the local politicians "who delivered what they promised."

¶12. (SBU) Another silk shop owner, one of the oldest and most prominent in the village, proudly said she never took out a loan from the Million Baht Village Fund program. "Others did take out loans, but are unable to pay them back," she said, adding that "there's little new money being lent out, and the government is limiting loans to promote their own ideas, such as encouraging us to switch to fish farming." In a back room, she proudly showed off a traditional silk design of her own. "There's only two of these, and the Crown Prince bought the original for 40,000 baht - our best sale

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this year."

¶13. (SBU) In the internationally-known ceramic village of Dan Kwian, just outside Khorat, owners of fully-stocked ceramic goods warehouses likewise lamented 2007 as a lost year in tourist and wholesale earnings. In the back streets, Econoff did find one enterprising pottery-maker operating a bustling family-owned business with four large kilns. He said he made use of the Village Fund to expand his production line and hire craftsmen. His unique designs, from cartoon characters to bald eagles perched on ornate trees, are being exported to Europe to compensate for the lack of business from Thai tourists.

¶14. (SBU) At a group meeting with 25 Khorat rice and cassava farmers organized by the state-owned Bank of Agriculture and Agricultural Cooperatives (BAAC), farmers expressed dismay at the poor rains this year, saying they had lost most of their first corn and rice crops for the two-crop season. They credited healthy agricultural prices, assisted by government subsidies, for strong growth in 2005-06 as the region recovered from drought conditions in 2004. One BAAC official said rice prices continued to be subsidized by the current government, although not to the extent that they'd seen under Thaksin's administration. "Farmers were getting 10,000 baht per ton under Thaksin. It fell to 8,000 baht/ton immediately after the coup, but has since risen to 9,000 baht/ton."

¶15. (SBU) Several misconceptions were evident, however, as one BAAC "adviser" to the farming group claimed that economic

sanctions against Thailand due to the coup had harmed agricultural exports. He did not elaborate on the sanctions, but went on to question Free Trade Agreements that "exclude" Thailand from selling crops to other trading partners. Separately, one farmer credited the TRT government with having created the rain that overcame the 2004 drought. It did so, he said, by planting rubber trees which "boosted humidity and caused rain to fall" in the improved 2005 season. Another farmer disagreed, saying that former Prime Minister Chavalit deserved the credit for having created the rubber program ten years earlier.

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CONDITIONS LESS FAVORABLE FOR A POPULIST REVIVAL  
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¶16. (SBU) The PPP is claiming the TRT populist mantle and professing "to continue what worked before," while the Democrat Party has unveiled its own suspiciously similar initiatives to woo Northeast voters (reftel). Critics of TRT's populist programs, such as Democrat Party leaders, argue that they were unsustainable in the long term and benefited from unusually favorable economic conditions from 2001 to 2005. Former TRT MPs, however, say their party deserves credit for creating those conditions, including increased real GDP growth (from 2.1 percent in 2001 to 7.1 percent by 2003), rising tax revenues (including a 10 percent boost in the first year), and a balanced government budget (in 2003) for the first time since 1997.

¶17. (SBU) Several economists who criticized the fiscal ramifications of TRT's populism in 2001 have since admitted that stronger-than-expected economic growth, combined with increased tax revenues, gave Thaksin the "fiscal space" to finance his domestic populist programs while pursuing liberalized trade. The public debt-to-GDP ratio fell to less than 40 percent in 2006 compared to 57 percent when TRT assumed power in 2001, while real GDP growth more than doubled during TRT's first year in power, rising from 2.1 percent in 2001 to 5.4 percent in 2002 and peaking this decade (so far) at 7.1 percent in 2003.

¶18. (SBU) Economists note, however, that Thaksin's early tenure coincided with a worldwide recovery from the 2001 recession. In 2008, Thai exports are likely to slow due to the appreciating baht and the sub-prime mortgage fallout affecting Thailand's largest export market, the United

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States. A recent rash of layoffs in labor-intensive export industries, such as textiles, is a further drag on consumption, and the BOT's interest rate cuts (175 basis points so far this year) have failed to spur domestic demand amid continued political uncertainty. Unless the elections unleash a long-awaited increase in consumer and investor confidence, the next government may not have the same resources to embark on populist policies that TRT enjoyed in ¶2001.

ENTWISTLE